

TWO LETTERS

TO

The Hon. S. P. CHASE,

Secretary of the Treasury,

FROM

JAMES GALLATIN, Esq.,

of New York.

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PRINTED

BY PARTICULAR REQUEST

FOR PRIVATE CIRCULATION ONLY,

BY

**HOSFORD & KETCHAM,**

57 and 59 William Street, New York.

1861.





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New York, March 27th, 1861.

HON. S. P. CHASE,

SECRETARY OF THE TREASURY.

*Sir :*

Considering the importance to Government of minute intelligence relative to public credit, the condition of the money market, the state of trade and the situation of commerce, in connection with the pending loan and the requirements of the Treasury, it has seemed to me advisable to submit to you the following facts, derived from the most reliable sources of information within my reach.

The last United States Loan has already been taken from the market within about one million of dollars, having been absorbed by the banks for currency, or by the savings' banks and individuals or institutions throughout the country as a permanent investment: so rapidly has this absorption gone on that there is some probability of the million yet in market being withdrawn in the same manner before the day which you have appointed for the taking of the new loan ;

and there is reason to hope that in the present state of the money market and the growing confidence of the people in the upright intentions of the administration, you will realise within five or six per cent. of par for the new loan, notwithstanding the terrible shock which public credit received toward the close of the late administration. Supposing it practicable to negotiate the loan at that price, the question arises whether to do so, or to adopt the alternative of an issue of Treasury Notes at par.

I can readily understand your anxiety to sustain the honor of the country by securing the *prestige* which is offered to you in your ability to procure this money at par for six per cent Treasury Notes of small denominations, and I observe that several of the Newspaper press, actuated undoubtedly by the most patriotic motives, are advocating this course.

In the form of a Stock this loan will be funded and out of the way for twenty years; but in the case of Treasury Notes, should sudden panics arise in the uncertain future, these would be thrown in upon you for duties, and most likely at a moment when you would be heavily pressed for means to carry on the government, they would aggravate the embarrassments of the Treasury. Besides, future emergencies may arise in which the issue of Treasury Notes would be the best and speediest means of supplying temporary wants. It would seem therefore more desirable



to negotiate this loan as you have proposed, in the form of a Stock having twenty years to run, if you can do so, which I have no doubt you can, at a fair price—say three to four per cent. above the rate obtained by the late administration for the last loan—and reserve the power of issuing Treasury Notes for future contingencies.

Serious apprehensions begin to arise here from the present abnormal or exceptional condition of trade and commerce; and the complications growing out of the course of the rebellion South, seem to indicate still greater cause of uneasiness. Inactivity, or increasing stagnation, is the characteristic of our business affairs, and were it not for the unusual demand which has arisen in Europe for our agricultural productions, by which the balance of trade and the flow of specie have been turned in our favor, much more serious misfortunes than the present inactivity must have fallen upon us.

Whether right or wrong in itself—government being without a powerful naval force with which to enforce a rigid blockade of the rebellious coasts—this new Tariff, passed at the close of Mr. Buchanan's term of office, is exerting a most injurious influence upon trade and commerce in those states which have remained loyal to the Constitution, and as it throws tremendous advantages into the hands of the secessionists at a moment when government required every possible assistance to stem the tide of disorganization, the

consequences of the measure threaten to be most deplorable. Business men refrain from entering upon new engagements: what little business is done, arises from the demand for supplying immediate wants or the closing up of the transactions of last autumn,—among my own immediate acquaintances, where there were orders one year ago to the extent of two millions of dollars, there are now for only thirty thousand dollars, and although the falling off may not be so general, yet from the best information I am able to obtain I find it is creating very great alarm.

No greater calamity could fall upon the *loyal States* than the loss of their commerce, and the contemplation of the evil likely to arise from the apprehensions of such a calamity will naturally force itself upon your mind.

An Extra Session of Congress at an early day would seem to be indispensable, although greatly to be avoided on many accounts: but is it not the least of the evils entailed upon the administration by their predecessors? I think it is, and I would earnestly but respectfully urge it upon your attention.

These facts and observations have been submitted to you, with sincere respect, from an earnest solicitude for the success of the administration of Mr. Lincoln, in whose election I took an active part and a lively interest—contrary to my usage for twenty years, during which I refrained from

politics, except to vote for Mr. Fremont—and in view of these motives permit me to hope that you will make allowance for the liberty I have taken in addressing you at so much length.

Very Respectfully,

Your Obed't. Servant,

(signed)

JAMES GALLATIN.



MEMORANDUM SENT TO THE SECRETARY OF THE TREASURY,

MAY 1st, 1861.

The government loans authorized before 1st July, 1861, are:—

About \$14,000,000 (balance unused) under law June 22d, 1860.—It requires 30 days notice and is limited at par and 6 per cent interest.

About \$9,000,000 (balance) of \$25,000,000 under law 8th Feb'y, 1861. This requires 10 days notice and is not limited as to rate of bids—6 per cent. interest.

The law of 2d March, 1861, allows issue of Treasury Notes for all loans then authorised under any existing law, and of course includes both the above.

PLAN.

Issue the \$9,000,000 in Stock or Bonds, and sell it at market price—86 to 90 (advertise immediately.) This will furnish cash for such payments as Treasury Notes will not meet.



Then offer immediately for the \$14,000,000, and say that Treasury Notes will be issued after the 30 days required shall expire. Meantime let systematic and thorough appeal be made throughout the Union States, and subscriptions taken up in every town by Post Masters, or other officials, for Treasury Notes \$50 and upwards. Let newspapers explain and commend the security.—At the end of 30 days this should be completed.—Pay out for public dues and contracts all those not taken.—These Notes will at once begin to flow to New York for sale.—It is important that that market be free to take them, and not overstocked by other issues, so that they may have currency.

New York Banks should take the Stock (\$9,000,000) at rates which will admit their re-selling it without loss. They thus become distributors of Government securities as hitherto, and should be kept as a resource for emergencies and new loans, and also to prevent depreciation of Treasury Notes coming to this market. Should they fill up with Treasury Notes at first, the Secretary has no resource hereafter.

Bank officers (being Trustees) have no power or right to take Government Loans or Stock at rates materially above the market. All such excess would be an unauthorised use of power.



It is believed that the energetic action of the U. S. Government to sustain itself in this crisis will give renewed credit to the Stock and Notes here, now—and in Europe hereafter—and that any amount so spent would enhance their value.

The moral effect of a *large* amount of bids for Stock at a price of 86 to 90 (equal to about 7 per cent for a 20 years loan) would be much better than a small amount bid for 6 per cent. Treasury Notes—There will be little or nothing bid for the 14 million loan *at par*, under present proposal.



New York, May 7th, 1861.

HON. S. P. CHASE,

SECRETARY OF THE TREASURY.

*Dear Sir:*

It affords me great pleasure to acknowledge yours of the 29th March last, in reply to mine of the 27th March, and to assure you that the Treasury Department in your hands possesses the confidence and respect of the whole country. When recently called upon to address my fellow citizens engaged in financial and commercial pursuits, it was a source of gratification to me to be able to speak in defence of the government, and in vindication of the course which the President has pursued.

In undertaking to defend the government against the attacks of a rebellious mob, the President has aroused the dormant energies of a great and powerful people. He has also triumphantly vindicated the Republic before the world from the aspersions, the scorn, and the contempt which were beginning to be heaped upon us, for that reprehensible

indifference to, or complicity with treason, which had crept into nearly all departments of government under previous administrations. That we have indeed a government, that we are a nation, and a powerful people, are facts which the administration of Mr. Lincoln has established before the eyes of all nations.

It is my earnest prayer that we may be enabled to conduct the war to a successful and a speedy issue. To do this with the least possible sacrifice of life and treasure, government has evidently determined, and wisely so, to strike *rapidly* and with *great power*. That mode is suggested by solicitude for the economy of life and money, while a short war will avert the dangers to our liberties which would follow a prolonged employment of a large military force accustomed to no other means of earning a livelihood.

All the great interests of the country must suffer by the war, but it is gratifying to see so many evidences in the course which government is pursuing that these interests are being duly considered and cared for: by non-inteference with the institution of slavery in the States through which the army marches, servile insurrection can be avoided or suppressed, the union sentiment of the people aroused and strengthened, and the production of Cotton continue to a sufficient extent to avert serious disaster to those great European nations whose domestic industry or social order is so dependent upon that commodity; and if in the blockade

of ports of rebellious States it may be deemed advisable to stop exports of Cotton by Sea, yet it will no doubt be the policy of government to permit exports of that material by way of the ports of the loyal States, with free internal trade in articles not contraband of war.

In relation to government loans hereafter to be negotiated, permit me to suggest for your consideration, and the action of Congress, whether the interests of the whole country, as well as the convenience of the government, would not be promoted by accepting bids at fair market price, a sealed bid to be made by yourself in every case at that price, in presence of witnesses, no other bid to be accepted at a price below that named in your sealed bid. This custom is frequently adopted by the great European governments to prevent dissatisfaction among bidders as well as to preserve the nation from combinations aiming at a depreciation of government securities. One argument in favor of negotiating loans at the market price—where strategy in war may not call for efforts to raise money temporarily by short loans or private negotiation—is this: competition is in that way aroused among capitalists; they bid against each other, and although the love of gain is excited to an enormous degree, yet the fact that large offers of capital are thus secured demonstrates to the enemy the power of government to borrow in excess of its wants. Again, in our own case.

\* \* \* \* \*



it might be very desirable to tempt European Capitalists to purchase a part of our national Stocks, and thereby avert the possible suspension of specie payments by the Banks in the Northern States, a calamity which might flow from an attempt on their part to carry the government loans in six per cent Treasury Notes at par, as contemplated by the unfortunate act of Congress governing the loan which you are now advertising, these notes being unsalable in Europe. War involves the actual destruction of Capital, and a government entering upon an exhaustive war without so negotiating its loans as to procure the aid of foreign Capital, or without possessing a powerful monetary system able to accomplish that object through the exchanges, runs the risk of a suspension of specie payment by the Banks within its jurisdiction, the loss of the metallic money, and the depreciation of its paper currency.

I have found in the efforts which I have been making, with other citizens, to secure the taking of this loan, now advertised, that six per cent. Treasury Notes would not bring par at this time. Money is worth more both here and in Europe. Private Capitalists are offered better interest on undoubted securities: and in the money markets of the World, which are all governed by the same law of supply and demand, governments are considered in the same light as individuals. Hence it would seem very desirable when Congress meets that you should obtain discretionary power,



with a proviso authorising you to make an official minimum bid, similar to the power conferred upon you by the act of 8th Feb'y last, in relation to the twenty-five million loan; and it seems to me that the government would be greatly aided in borrowing if Congress would advance the rate of interest on the loans to seven per cent, that being the rate usually current in this commercial metropolis, and is, or was, recently, the rate in London and Paris. Another argument in favor of negotiating loans at market price is found in the incentive which a slight discount gives to savings by the people—a prospect of gain stimulates the desire to accumulate.

Banks are only dealers in money, and their power of making loans is limited by the condition of the money markets of the world: they require quick returns of ready money, to meet current demands; and while they have the opportunity of dealing in government securities, as agents between the government and the people, they can dispose of any amount of loans which this or other countries will absorb, but to load them with loans which they cannot dispose of, would force their specie from them, turn the exchanges against the country, cause a suspension of specie payments, and inaugurate a depreciated paper currency with all its attendant calamities.

Considering the unfortunate proceedings of the late Congress, and the evils entailed upon Mr. Lincoln's admin-

istration by the treason under his predecessors, we have great cause to rejoice that the embarrassments which surround the Treasury Department are not of a more serious character.

It would probably be best to issue the nine million remaining from the twenty-five million loan of 8th Feb'y, 1861, and sell it at the market price, which will give you ready means until the meeting of Congress; if the six per cent. Treasury notes for the fourteen millions now advertised are not taken at par, there will be no difficulty I apprehend in disposing of them, \* \* \* \* but permit me to suggest that it would be advisable to have the required ten days notice given promptly, so as to get offers for the nine millions at market price before the expiration of the thirty days of grace required in the case of the loan now advertised.

Since writing the foregoing, I have had submitted to me a manuscript copy of a letter, dated Washington, 2d May, 1861, from Messrs. Howe, Foster & Wilson, to the Boston Bankers and Capitalists, Messrs. Hooper, Haven & Gray, urging the taking of the loan of fourteen millions now advertised in Stock at par by New York, Massachusetts and Philadelphia; but in what I have written you will readily see that this is impossible: for however ready Capitalists may be from patriotism, and loyalty to the administration, to make donations of money out of their private purses, when it comes to a simple business transaction like this, in a

Stock that is to be bought to sell again in this and other markets, the idea of having Capitalists take it at a loss of about one million four hundred thousand dollars would argue that a terrible despondency existed in the Cabinet which required to be hid from the enemy by a demonstration of this character. As well expect supplies for the army to be furnished at ten per cent. below the market prices at a time like this, when the credit and the strength of the nation are undoubted.

If the country were really sinking, it would be a very different state of affairs—then all men would and might be compelled to sacrifice every thing for the country.

The distinguished gentlemen who wrote that letter did not I apprehend consider the fact that Banks are only mediums of the exchanges, not reservoirs of the Capital of a country. Load them down, as already observed, by permanent investments, so that they cannot aid the ordinary commerce and trade of the country, and they must suspend specie payments: and then, if the Banks and government were to issue an unlimited paper currency, as in the revolutionary war, the credit of the nation abroad would be gone, and the increased prices of commodities by the increase of the paper money would add immeasurably larger amounts to the expenses of the war and the national debt, than any possible loss which may be entailed under a maintenance of specie payments by selling the Stocks at



market prices.—Besides all this, by maintaining a specie basis we can distribute the economical burthen of the war among all other nations in proportion to the extent of their economical relations to us.

I have already ascertained by replies to the circular of the Committee of the Chamber of Commerce, of which Committee I am a member, that not more than eight hundred thousand dollars of United States securities are wanted outside of New York and Boston— \* \* \*

Boston, we understand, will probably take about three millions of Treasury notes or Stock; so it is evident that we shall have to depend to some extent upon getting up a spirit of competition for the Stock at a discount in this country, and in Europe; and the true and the courageous policy of government is a bold showing of its hand in the market on the principles of dealing established and recognised by the dealers in money all over the world. This course will command confidence and capital, and respect and sympathy; at the same time it should be well understood, and loudly proclaimed, that a *revenue tariff* equal to the exigency of the times, shall be kept up and enforced, and that if it should be deemed advisable as a matter of foreign and domestic policy, to reduce the tariff in some cases, or to keep tea, coffee &c., on the free list, there will be no hesitation in resorting to a small direct tax to maintain the credit of the country. It would be premature to advise government to declare in

favor of Free Trade and direct taxation, at this time: still I would advise the adoption of a small direct tax during the war, say a tenth of one per cent. on the assessed value of real estate, just as soon as Congress meets; and if it could be accomplished, the collection of this tax by the States with their own, or through their own agents, to be employed by the General Government for that purpose, would greatly facilitate the collection. Very great confidence would be created by such a tax.

Very Respectfully,

Your Obed't. Servant,

(signed)

JAMES GALLATIN.













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